Approved
May 3, 2006

Actuary Committee
Regular Meeting
Summary Minutes

January 11, 2006
Claremont Room, 2nd Floor
101 Eighth Street, Oakland, CA

Presiding	**Jurisdiction**
Alex McIntyre, Presiding Chairman	Tiburon
Committee Members Present	
Larry Anderson	Burlingame
Julie Carter	Dublin
Emma Karlen	Milpitas
Jim Steele	So. San Francisco
Bronda Silva	American Canyon
Jack Dilles	Morgan Hill
Other Members Present	
Maureen Lennon	Pacifica
Consultants	
Michael Harrington, Actuary	Bickmore Risk Services
Peter Urhausen, Attorney for Pacifica	Gibbons & Conley
Staff Present – ABAG PLAN Corporation	
Marcus Beverly, ABAG Risk Manager	
Ken Moy, ABAG Counsel	
Angela Salsbury, ABAG Claims Manager	
Carol Johnson, ABAG Secretary	

1. CALL TO ORDER:
Meeting called to order at 9:30 a.m. by Alex McIntyre.

2. PUBLIC COMMENTS:
None.

3. APPROVAL OF MINUTES, APRIL 20, 2005 COMMITTEE MEETING:
Committee meeting minutes were approved as presented. Motion was made by Carter/S/Karlen/C/ approved.

4. CALCULATION OF MEMBER FUND BALANCE:
Marcus Beverly and Mike Harrington presented a staff report and accompanying actuary report recommending a new formula for calculating the Fund Balance for each Member and presenting a number of options for pooling losses.

Marcus Beverly explained the history and need for revising the formula used by our previous actuary. The variables used and the method of calculation do not lend themselves to verification by balancing with our financial statements. As a result, we have revised the formula by breaking it in to two parts – the historical calculation, all money paid into and out of the pool since inception, and the future calculation, all money expected to be collected and paid for all losses up to 6/30/05.

The key decision points in the revised formula are the variables for interest income allocation and pooled losses.

Staff presented the basis for using the GASB 10 schedule from our audited financials to allocate interest by Fiscal Year, primarily to maintain consistency between the financial and actuary records. Staff also recommended allocating interest income by year to the members pro-rata based on premium.

The Committee was then presented with six options for allocating pooled losses. The method of sharing and impact on member balances was illustrated with various exhibits provided by our actuary. Key to staff's analysis was a set of exhibits summarizing the amount of variance in the results of each option. Staff explained from a risk management standpoint the value of choosing an option with a minimal amount of spread between the highest and lowest results, thereby limiting individual results within a smaller range of outcomes, improving predictability, and minimizing each member's worst-case scenarios.

In addition, the report analyzed the options by the number of best or worst cases for individual members, again emphasizing the value of having a minimal number such outcomes. The goal from a risk management view is to maintain greater predictability of outcomes by limiting their range and the number at or near the upper or lower range.

This analysis points to Option 5 or 7 as the two that most closely meet these criteria, with similar results for both the spread and number of best and worst outcomes.

The committee, staff, and actuary discussed these options and methods at some length before the Committee was asked to make a recommendation to the Executive Committee. After explanation, discussion and review of options, the Committee made the following recommendations:

- Interest income allocation: GASB 10 method for allocation by Fiscal Year and pro-rata by payroll for allocation to Members. Motion/Karlen/S/Steele/C/Approved

- Loss sharing formula: Option 7 ($250k cap with credibility factor) of exhibit as presented by actuary and staff. Motion/Silva/S/Karlen/C/Approved

5. USES OF SIR FUND AND WITHDRAWAL FORMULA:
Ken Moy presented an overview and exhibit of the options for use of the SIR Fund, including payment to withdrawn members, for committee review and discussion. A memo concerning membership withdrawal and a proposed formula for determining the amount that may be due to or from a departing Member was discussed. Committee Members were requested to recommend a withdrawal formula to the Executive Committee.

After discussion and evaluation of the formula presented by Staff, the Committee approved the formula as presented for recommendation to the Executive Committee.
Motion/Karlen/S/Silva/C/Approved

6. MOD FACTOR AND FUNDING ERROR:
Marcus Beverly presented a staff report regarding an error in calculating the loss funding for the 2005-06 Program Year. The actuary used losses from the 1998-99 to 2002-03 Program Years, instead of the 1999-2000 to 2003-04 years, to calculate funding. The funding error wasn't discovered until after the premiums were invoiced, when San Bruno questioned Mike Harrington about their premium and the mistake was discovered.

As a result, Mike prepared an updated report and an exhibit for San Bruno detailing the funding calculation. This level of detail was not in the original report, and staff has requested it be included in future reports to avoid this type of error. The Committee members requested more information from Bickmore Risk Services as to how the funding error occurred, whether or not similar mistakes had been made in prior years, and a similar exhibit to the one for San Bruno for each member. Emma Karlen requested two invoices be sent, separating the amount due to the error, to give Members the option of paying this Fiscal Year.

Committee Members approved a motion to delay action by forwarding the matter to the Executive Committee for action, with the understanding that additional information and exhibits will be obtained from Bickmore Risk Services as to how funding is calculated and how the error occurred. Motion/Anderson/S/Karlen/C/approved

7. CALCULATION OF ULAE:
Staff presented a report recommending increasing the reserves for Unallocated Loss Adjustment Expense from 5% to 10% of Reserves for Claims and Claims Expenses. Staff provided the history of how the amount was calculated and an overview of the types of activities and costs associated with running off the claims should the PLAN cease providing coverage.

After discussion and review Committee Members approved recommendation for increase to 10% as presented by Staff. /M/Silva/S/Anderson/C/Approved.

8. PACIFICA RESCISSION NOTICE AND BELVEDERE WITHDRAWAL NOTICE:
Marcus Beverly presented for discussion recent notices from Pacifica announcing their decision to stay in the pool and Belvedere's notice to withdraw from the pool. Belvedere is considering joining another pool, the CJPIA, and staff is preparing a comparison for them to help in the decision. The results of the analysis should make good topics for discussion at the next Board strategic planning session.

9. OTHER BUSINESS:
None

10. ADJOURNMENT:
Meeting was adjourned at 2:35 p.m.

/M/Dilles/S/Karlen/C/ approved

Respectfully Submitted,

Marcus Beverly
Risk Manager & Secretary
ABAG PLAN Corporation

/cj